**A8.635 Installment Contracts - Recording Assets and Liabilities**

1. **Purpose**

To ensure that equipment acquired, liability incurred, and the fund equity are recorded in the University's Financial Management Information System upon entering into an installment contract.

2. **Definitions**

- **Installment Contract** - An agreement to purchase or lease with option to purchase and involves a down payment and a series of partial payments on a debt, each of which is specified as to principal, interest, and due date.

- **Equipment** - A University fixed asset which meets the capitalization criteria of APM A8.550, *Capitalization*.

- **Liability** - The remaining principal owed excluding the finance charges; it means the amount owed.

- **Fund Equity** - The excess asset value over the liability.

3. **Objectives**

   a. To provide procedures to record asset, liability, and fund equity at the inception of an installment contract.

   b. To provide procedures to record installment payments and reduce the liability balance with each payment.

4. **Applicability**

These guidelines and procedures apply whenever equipment assets are acquired or leased on installment purchases. The recording of these transactions shall be the responsibility of the fiscal officer of programs having installment contracts.

5. **Responsibilities**

   a. **Fiscal Officers**

      1) Compute the asset value and liability by completing the "Worksheet of Asset Value and Contract Payable Computations for Equipment Purchased on Installment." (See Attachment A.)
2) In a capital lease agreement with the option to purchase, record the asset, liability, and fund equity. The asset should not be removed from the accounting records, even if the option to purchase is not exercised, until the termination of the contract and the return of the asset to the vendor.

3) Submit the original FMIS-6, Account/Record Maintenance Control Sheet and the original FMIS-21, Account Code Maintenance Form - GL for each installment contract to the Office of Procurement, Property and Risk Management (OPPRM) along with the purchasing documents (requisition and blank purchase order, written quotations, information for formal bid, contract encumbrance form, etc.).

4) After receiving confirmation of the establishment of the general ledger account code from Inventory Management, prepare the journal voucher (JV) to record the asset, liability, and fund equity at the inception of an installment contract when the asset is in place and ready for use.

b. **Office of Procurement, Property and Risk Management**

1) Assist in obtaining the breakdown of principal and interest details from the vendor as part of the installment contract.

2) Provide fiscal officers with the breakdown of principal/interest details from the vendor and the installment contract.

3) Forward a copy of the installment contract along with the original FMIS-6, Account/Record Maintenance Control Sheet and the original FMIS-21, Account Code Maintenance Form - GL to Inventory Management after fully executing the installment contract.

c. **Inventory Management**

1) Upon receipt of the original FMIS-6, Account/Record Maintenance Control Sheet and the FMIS-21, Account Code Maintenance Form - GL from OPPRM, establish the general ledger account code for the installment contract. Notify the fiscal officer of the establishment of the general ledger account code.

2) Review and process journal vouchers submitted by fiscal officers.

3) Enter the journal voucher on-line.

4) Assign/issue the decal number.
6. **Procedures**

a. Compute the asset value and liability amount using the "Worksheet of Asset Value and Contract Payable Computations for Equipment Purchased on Installment" as shown in Attachment A:

1) **Asset value = price + freight + installation costs.**

2) **Installment contract payable = price - down payment - trade in allowance.** Indicate the decal number of the existing asset.

3) **Fund equity = the excess asset value over the installment contract payable liability.**

b. Record the asset by preparing a journal voucher as shown in Attachment B.

1) **Account code:** the general ledger account code specifically established for the installment contract. **Note:** Do not use SUBSIDIARY LEDGER (SL) ACCOUNT. The SL account is used to record the encumbrance and make payment on the installment account.

2) **Account control code:**

   a) To record the asset in the investment in plant fund:

   Debit: account control code "1740" which is the FMIS general ledger asset account for "Equipment"

   Credit: account control code "4543" which is the FMIS general ledger plant addition account for "Fixed Assets Installment Contract - Asset".

   b) To record the liability in plant fund:

   Debit: account control code "5430" which is the FMIS general ledger plant deduction account for "Fixed Assets Installment Contract - Liability"

   Credit: account control code "2610" which is the FMIS general ledger liability account for "Installment Contracts Payable".

   c) The difference between the asset and liability, if any, is the fund equity (i.e., the downpayment, trade-in, discount, etc.).
3) **Use of Object Codes and Subsidiary Ledger Accounts**

Use the subsidiary ledger (SL) account code(s) and the following object codes to record the contract encumbrance and make installment contract payments:

- 5606 - payment of principal on a lease
- 7706 - payment of principal on a purchase

Use of these two object codes with each installment payment will reduce the liability outstanding by each payment and will liquidate the encumbrances. **Note**: Use existing object codes for other expenses of an installment payment/encumbrance (e.g., 3600 for freight charges previously capitalized, 5805 for maintenance of the equipment, and 6201 for interest expense).

4) State the following information in the "explanation" section of the journal voucher:

a) decal number, if previously assigned to an existing equipment

b) contract or purchase order number.

c. Attach supporting documents to each copy of the JV.

1) "Worksheet of Asset Value and Contract Payable Computations for Equipment Purchased on Installment". (See Attachment A).

2) Installment contract showing the purchase plan with the breakdown of principal and interest, installment amounts, and payment due dates. (See Attachments C and D for samples).

d. Forward the original and two copies of the JV to Inventory Management.

e. Forms Availability

The "Worksheet of Asset Value and Contract Payable Computations for Equipment Purchased on Installment" forms may be obtained from OPPRM or Inventory Management.
UNIVERSITY OF HAWAII
WORKSHEET OF ASSET VALUE AND CONTRACT PAYABLE COMPUTATIONS
FOR EQUIPMENT PURCHASED ON INSTALLMENT

1. Contract No _____________________ 2. SL Account No _____________________
3. Contract Date ___________________ 4. Installation Date _________________
5. Vendor Name ____________________________________________________________
6. Payee Name ____________________________________________________________ 7. Code ______________
8. Asset Description ______________________________________________________
   Model ___________________________ Serial No ____________________________
9. Bldg/Rm ________________________________ Decal (if known) ______________

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I. COMPUTATION OF ASSET VALUE, CONTRACT PAYABLE AND FINANCE CHARGES.

<table>
<thead>
<tr>
<th></th>
<th>Asset Value</th>
<th>Contract Payable</th>
<th>Finance Charges</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>Price</td>
<td>$_________</td>
<td>$_________</td>
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<tr>
<td>B</td>
<td>Down-Payment</td>
<td>&lt;________&gt;</td>
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<td></td>
<td>Doc# ________ Date __________</td>
<td>Object Code _________</td>
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<tr>
<td>C</td>
<td>Trade-in Allowance</td>
<td>&lt;________&gt;</td>
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<td></td>
<td>Decal No. __________</td>
<td></td>
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<tr>
<td>D</td>
<td>Expenses:</td>
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<tr>
<td></td>
<td>1) Freight</td>
<td>__________</td>
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<td></td>
<td>2) Installation Costs</td>
<td>__________</td>
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<td></td>
<td>3) Other</td>
<td>__________</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>Finance Charges</td>
<td>__________</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>Totals (A thru E)</td>
<td>$_________</td>
<td>$_________</td>
</tr>
</tbody>
</table>

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II. INSTALLMENT PAYMENT SCHEDULE BY FISCAL YEAR

<table>
<thead>
<tr>
<th>FY</th>
<th>SL Account No.</th>
<th>(1) Total Payments (2+3)</th>
<th>(2) Finance Charge</th>
<th>(3) Principal Applied</th>
<th>(4) Remaining Balance (4 - 3)</th>
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<td>$_________</td>
<td>$_________</td>
<td>$_________</td>
<td>$_________</td>
</tr>
</tbody>
</table>

Fiscal Officer's Signature  Code  Department  Date
UNIVERSITY OF HAWAI'I
WORKSHEET OF ASSET VALUE AND CONTRACT PAYABLE COMPUTATIONS
FOR EQUIPMENT PURCHASED ON INSTALLMENT

1. Contract Number: contract or purchase order document number.
2. Account Code: FMIS SL expending account(s).
3. Contract Date: effective date of contract.
4. Installment Date: date of installation or acceptance.
5. Vendor Name: name of vendor selling the equipment.
6. Payee Name: name of payee, if not same as vendor.
7. Vendor Code: vendor (payee) code.
8. Asset Description: description, model and serial number.
9. BLDG/ROOM: building and room number.
10. Decal: equipment decal number, if previously assigned.

I. COMPUTATION OF ASSET VALUE, CONTRACT PAYABLE, AND FINANCE CHARGES

A. Price-Asset Value: original cost of the equipment.
   Price- Contract Payable: full cost of the contract.

B. Down Payment: amount paid up to the time of installation. Fill-in the payment document number, document date, and object code.

C. Trade-in Allowance: amount allowed for the old equipment as payment towards the purchase price for a new item. Provide the existing decal number.

D. Expenses: amounts specified separately from the price: freight, installation, and other costs.

E. Finance Charges: amount of the interest owed on the outstanding debt.

F. Totals: Sum of items A through E for asset value, contract payable, and finance charges.

II. INSTALLMENT PAYMENT SCHEDULE BY FISCAL YEAR

Fill-in for each fiscal year: the expending subsidiary ledger account code(s), total payments, the finance charges and principal applied portions and compute the remaining balance owed (i.e., remaining balance minus principal applied).

Provide the fiscal officer's signature, code, department, and date.
This page is left blank intentionally. Hard copies of this Administrative Procedure were disseminated to all University programs on the APM distribution list. The journal voucher sample (Attachment B) appearing on page 8 of 10 could not be placed in UHINFO at this time. Should you require a copy of “Attachment B”, please contact your fiscal officer or the Inventory Management Section.
SAMPLE OF INSTALLMENT CONTRACT
SCHEDULE OF PAYMENTS

Xerox Corporation
Contract No. CCH0001

It is the intent of the University to lease eighteen (18) copiers for a period of SIXTY (60) months. However, since funds are appropriated annually, the initial term of the contract shall be firm for a period of ONE (1) year commencing upon installation and acceptance of the equipment, and thereafter shall be renewable annually for a total of FIVE (5) years, without the necessity of rebidding, NINETY (90) days prior to the annual renewal date, contingent upon availability of funds, provided that the price remains the same or lower than the initial bid price and provided, further that the University may terminate the contract in the event of nonavailability of funds, in accordance with Section 103D-309, Hawaii Revised Statutes, or if the Contractor fails to perform as specified.

In accordance with Section 103D-309, Hawaii Revised Statutes, it shall be strictly understood that the contract shall be enforceable only to the extent that funds have been certified as available and that availability of funds in excess of the amount certified as available shall be contingent upon future appropriations.

Payment schedule shall be as follows:

1. Trade 60-month Lease Price of Copiers $560,726.40
   Less Trade-in (Allowance Included in Bid Price)
   Less Difference of Promotional Rate for First Six Months $(31,449.60)
   $529,276.80

2. First Year Cost
   Promotional Rate for Six Months 24,623.04
   Fixed Monthly Cost for Six Months 56,072.64
   $ 80,695.68

3. Cost for Years Two through Five
   Fixed Monthly Cost ($519.19 x 18 copiers) $ 9,345.44
   Number of Months x 12
   Cost Per Annum $112,145.28

4. Total Contract Price
   First Year Cost $ 80,695.68
   Year Two through Five ($112,145.28 x 4) 448,581.12
   Total Cost 60 Months $529,276.80
SAMPLE OF INSTALLMENT CONTRACT

SCHEDULE OF PAYMENTS

Effective December 16, 1996, five annual principal payments plus accrued interest and monthly service fees as shown in the following schedule of payments, shall be rendered to the Lessor and shall end on December 16, 2000, unless sooner terminated as provided for in Sections 5, 13, 15, and 21 of the Lease Agreement.

<table>
<thead>
<tr>
<th>Date</th>
<th>Principal Balance</th>
<th>(b) Payment on Principal</th>
<th>(c) (a)-(b)</th>
<th>Interest .0865x(c)</th>
<th>RCUH Fee</th>
<th>Amount Due</th>
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</thead>
<tbody>
<tr>
<td>12/16/96</td>
<td>$435,000</td>
<td>$87,000</td>
<td>$348,000</td>
<td>$30,102</td>
<td>$1,635</td>
<td>$118,737</td>
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<tr>
<td>12/16/97</td>
<td>348,000</td>
<td>87,000</td>
<td>261,000</td>
<td>22,577</td>
<td>1,200</td>
<td>110,777</td>
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<tr>
<td>12/16/98</td>
<td>261,000</td>
<td>87,000</td>
<td>174,000</td>
<td>15,051</td>
<td>1,200</td>
<td>103,251</td>
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<tr>
<td>12/16/99</td>
<td>174,000</td>
<td>87,000</td>
<td>87,000</td>
<td>7,526</td>
<td>1,200</td>
<td>95,726</td>
</tr>
<tr>
<td>12/16/00</td>
<td>87,000</td>
<td>87,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>87,000</td>
</tr>
</tbody>
</table>

Totals $435,000 $ 75,256 $5,235 $515,491